Understanding Credit Scoring

Your credit score is a number that lenders use to estimate risk. Borrowers with higher credit scores are less likely to default on a loan and can usually get larger loans and lower interest rates. Regardless of the type of loan you are applying for, stated income loan, super jumbo loan, no documentation, etc., your credit score directly affects how much your loan will cost. Credit scores usually range from 340 to 850, and borrowers with scores above 700 will usually have more, and better, options.

The scores are sometimes called FICO scores after the name of the company who created the software used to calculate credit scores, the Fair Isaac Corporation. A lender usually gets your scores from the three major credit reporting agencies, Transunion, Equifax and Experian, and uses the middle score. The data these companies use comes from your creditors, the court system and other public records, and debt collection agencies.

Credit Scoring Highlights:

- By definition, a credit score is a mathematical model that evaluates many types of information in a credit file. It indicates the likelihood that a person will make payments on time. The higher the score, the less the risk.
- Various factors determine a credit score. – *see below*
- Each factor carriers a certain percentage that determines a credit score.
- Credit Scores vary from industry to industry (mortgage, auto, insurance, credit card, etc.) because each has it's own specific criteria and scoring model. Even within each industry, there are various scoring models.
- The score you get if you "buy" a credit report from a website, and the score you get with your free annual credit report, is based on a generic scoring model. It will not be the same score you get when you actually apply for a mortgage, car loan, credit card, etc.

These are approximate percentages for the relative importance of the various parts of your credit history:

- **35% - Payment history**, including the number of accounts paid as agreed, negative public records or collections, including delinquent accounts (total number of past due items, how long you've been past due, and how long it's been since you had a past due payment).
- **30% - Amount Owed**, including how much you owe on accounts and the types of accounts with balances, how much of your revolving credit lines you've used, amounts you owe on installment loan accounts vs. their original balances, and number of zero balance accounts.
- **15% - Length of Credit History**, including length of time tracked by your credit report, length of time since accounts were opened, time that's passed since the last activity.
- **10% - Types of Credit**, including number and types of accounts (installment, revolving, mortgage, etc.) A mixture of account types usually generates better scores than reports with only numerous revolving accounts (credit cards.)
- **10% - New Credit** number of accounts you've recently opened and the proportion of new accounts to total accounts, and the number of recent credit inquiries.

The higher your score, the less risk a lender believes you will be. As your score climbs, the interest rate you are offered, whether it's for a stated income loan or a super jumbo loan, will probably decline.

Where does you Credit Report come from?

Your credit history originates from multiple sources. Here are some common sources:

- Credit Cards – your account information and payment history
- Mortgages – your mortgage terms and payment history
- Auto Financing – terms and payment history
- Court Houses – report judgments and disputes related to credit as well as bankruptcy's, tax liens, etc.

Facts You Should Know

Payment history on your credit file is supplied by credit grantors with whom you have credit. This includes both open accounts and accounts that have already been closed.

Payment in full does not remove your payment history. The length of time information remains in your credit file is shown below:

Credit Accounts	Accounts paid as agreed remain for up to **10** years Accounts not paid as agreed remain for **7** years
Collection Accounts	Remain for **7** years

(The time periods listed above are measured from the date in your credit file shown in the "date of last activity" field accompanying the particular credit or collection account.

Courthouse Records

Remain for 7 years from the **date filed**, except:
Bankruptcy-Chapters 7 and 11 remain **10** years from the date filed.
(CREDIT ACCOUNTS 7 YRS FROM DATE OF LAST ACTIVITY)
Bankruptcy-Chapters 13 non-dismissed or non-discharged remain 10 years from the date filed.
Unpaid tax liens remain indefinitely.
Paid tax liens remain for up to 7 years from the **date released.**

New York State Residents Only: Satisfied judgments remain 5 years from the date filed; paid collections remain 5 years from the "date of last activity".
California State Residents Only: Unpaid tax liens remain 10 years from the date filed.

A **divorce decree** does not supercede an original contract with a creditor and does not release you from legal responsibility on any accounts. You must contact each creditor individually and seek their legal binding release of your obligation. Only after that release can your credit history be updated accordingly.

There may appear to be duplicate accounts reporting in your credit file. Please review it carefully as some credit grantors issue both revolving and installment accounts using similar account numbers. Another reason why an account may appear to be reported twice is that when you move, some credit grantors transfer your account to a different location and issue a new account number.

The balance reported is the balance on the date the source reported the information. Credit grantors supply information on a periodic basis, so the balance shown may not be the balance you know it is today. If the balance reported was correct as of the date reported, it is not necessary to investigate the balance on that account.

The Credit DOs and Don'ts

DO

1. Know your credit facts and consumer rights
2. Pay bills on time!!
3. Keep balances on credit cards under 33%
4. Ask creditor for 1 time courtesy to remove late date
5. Watch inquiries – excessive inquiries diminish rating; *however*, while shopping for a mortgage you have a 14 day rolling window in which only the very first inquiry actually affects your score

DO NOT

1. Do not close revolving accounts
2. Do not pay off old collections before pulling credit
3. Do not open any new credit before a new loan

Identity Theft

If you suspect that you have been a victim of identity theft you can place a fraud alert on your credit file. This will alert any creditor to the possibility of fraud and may prevent someone from obtaining credit in your name. To place a fraud alert on your file, you can contact the three credit repositories as follows:

Equifax:
Call: Consumer Fraud Division 1 800-525-6285
or 888-397-3742
Or Write: Equifax Consumer Fraud Division
P.O. Box 740256
Atlanta, GA 30374

Experian:
Call: 1 888 397-3742
Or Write: Experian
P.O. Box 2002
Allen, Texas 75013

TransUnion:
Call: TransUnion Fraud Victim Assistance 800-680-7289

Or Write: TransUnion LLC
P.O. Box 1000
Chester, PA 19022

Check Your Own Credit Report

The law now mandates that you may receive one free consumer copy of your credit report every year. Checking this will ensure that your credit file is accurate and will help you determine if you've been a victim of identity theft. Check your report for proper account information and proper personal information (correct name, SSN, address).

REMEMBER…

*****THIS IS *YOUR* CREDIT HISTORY,
SO THE MORE RAPIDLY *YOU* ADDRESS ANY ISSUES,
THE QUICKER THOSE ISSUES WILL BE RESOLVED!**

To get your free annual credit report, visit WWW.ANNUALCREDITREPORT.COM
****This is the only site sponsored by all three national bureaus.**
This site allows you to dispute…no more waiting for your file to be mailed to you!
Visit **www.myfico.com** for more in-depth information on credit scoring.